

Message Text

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ACTION COME-00

INFO OCT-01 NEA-10 ISO-00 L-03 FRB-03 OMB-01 ITC-01

SP-02 USIA-06 AGRE-00 AID-05 CIAE-00 EB-07 INR-07

IO-13 LAB-04 NSAE-00 EPG-02 SIL-01 STR-04 TRSE-00

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 7328

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E.O. 11652: N/A

TAGS: EPAP, CE

SUBJ: NATURAL RUBBER (NR)

REF: STATE 104226

1. STRUCTURE AND OWNERSHIP. THE RUBBER INDUSTRY IN SRI LANKA CAN BE DIVIDED INTO FOUR PRIMARY DIVISIONS VIZ (A) PLANTATION INDUSTRY, (B) PROCESSING OF RAW LATEX INTO SHEET AND CREPE, (C) MANUFACTURED RUBBER GOODS AND (D) EXPORT. RE (A) ABOVE, UNDER THE LAND REFORM

ACT, ALL RUBBER PLANTATIONS OVER 50 ACRES ARE OWNED BY THE STATE. THESE HAVE BEEN DISTRIBUTED TO GOVERNMENT CONTROLLED INSTITUTIONS VIZ SRI LANKA STATE PLANTATIONS CORPORATION, RUBBER RESEARCH INSTITUTE (RRI), JANAWASAMAS, USAWASAMAS AND MULTIPURPOSE COOPERATIVE SOCIETIES. ACTUAL ACREAGE DISTRIBUTED TO EACH OF THE ABOVE ARE NOT YET AVAILABLE. PRACTICALLY ALL OF BALANCE LOTS OF 50 ACRES AND BELOW BELONG TO SMALLHOLDERS, AS UNDER LAND REFORM MOST OF THE BEST LANDS IN PRIVATE HANDS INCLUDING FACTORIES, ETC. WERE TAKEN OVER. RUBBER CONTROLLER STATES ACTUAL AREA IN RUBBER IS ABOUT 550,000 ACRES AND THAT SMALLHOLDINGS ACCOUNT FOR ALMOST 60

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PERCENT. (B) PROCESSING OF RUBBER IS DONE IN SEVERAL FACTORIES, A LARGE PORTION OF WHICH ARE IN THE HANDS OF THE ABOVE GSL CONTROLLED INSTITUTIONS. MOST OF THE SMALLHOLDERS EITHER MANUFACTURE SHEET, WHICH IS OF BAD QUALITY, OR DELIVER THEIR LATEX AT COLLECTING CENTERS (TOTALLING ABOUT 75) PROVIDED BY GSL WHO IN TURN CONVERT IT INTO SHEET OR CREPE. A FEW PRIVATELY OWNED FACTORIES ALSO PURCHASE LATEX AND PROCESS IT, DUE TO WIDE PRICE

DIFFERENTIAL PREVAILING IN RECENT YEARS BETWEEN CREPE AND SHEET. IN ADDITION, THERE IS A FACTORY ABOUT 60 MILES NORTH-EAST OF COLOMBO MAKING CRUMB RUBBER. A MUCH LARGER FACTORY FOR THE SAME PURPOSE IS PRESENTLY BEING CONSTRUCTED BY A JOINT STOCK COMPANY COMPOSED OF SHAREHOLDERS FROM GSL AND THE PRIVATE SECTOR. THERE IS ALSO A SMALL FACTORY ABOUT 25 MILES SOUTH COLOMBO WHICH MANUFACTURES TECHNICALLY SPECIFIED RUBBER. HOWEVER, TOTAL PRODUCTION OF TECHNICALLY SPECIFIED RUBBERS IS PRESENTLY UNDER 2,000 TONS PER ANNUM. (C) RUBBER GOODS INDUSTRY, AT PRESENT, CONSISTS MAINLY OF GSL'S TYRE CORPORATION AND PRIVATE SECTOR RETREADERS OF TIRES AND MANUFACTURERS OF RUBBER GOODS. THEY UTILIZE APPROXIMATELY 7,250 TONS OF NR WITHIN SRI LANKA. THIS REPRESENTS UNDER 5 PERCENT OF NR PRODUCED, DETAILS OF WHICH ARE AS FOLLOWS:

RIBBED SMOKED SHEET (RSS) 86,479 METRIC TONS

LATEX CREPE 43,833 METRIC TONS

SCRAP CREPE 14,466 METRIC TONS

SOLE CREPE 4,081 METRIC TONS

BLOCKED RUBBER 2,266 METRIC TONS

LATEX 1,008 METRIC TONS

TOTAL 152,133 METRIC TONS

ACCORDING TO THE FIVE YEAR PLAN, THE TARGET FOR 1976 WAS 181,000 METRIC TONS. (D) EXPORT OF SHEET RUBBER OF GRADES RSS 1, 2, AND 3 IS DONE BY COMMISSIONER OF COMMODITY PURCHASE (CCP). THIS ACCOUNTS FOR ABOUT 80 PERCENT OF SHEET RUBBER MANUFACTURED IN SRI LANKA. THE BALANCE 20 PERCENT REPRESENTING THE LOWER GRADES OF RSS 4 AND 5 ARE GIVEN TO THE PRIVATE SECTOR WHO EXPORT IT MAINLY TO PAKISTAN AND FEDERAL REPUBLIC OF GERMANY. SHEET RUBBER EXPORTED BY CCP UNDER THE RUBBER/RICE PACT WITH LIMITED OFFICIAL USE

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PEOPLE'S REPUBLIC OF CHINA (PRC) IS PURCHASED PARTLY BY HIM THROUGH HIS DEPOTS IN RUBBER PRODUCING AREAS AND PARTLY BY EXPORTERS IN THE PRIVATE TRADE WHO BUY IT EITHER DIRECT FROM THE PLANTATIONS OR THROUGH DEALERS OPERATING IN THE ABOVE AREAS. PRACTICALLY ALL THE RUBBER EXPORTED BY CCP IS HANDLED BY PRIVATE SHIPPERS BELONGING TO THE CEYLONSE RUBBER SHIPPERS' ASSOCIATION. THE HANDLING IS DONE BY THEM ON A FIXED CHARGE OF RS. 27.05 (\$3.60) PER 100 KGS. THIS INVOLVES PURCHASING OF RUBBER FROM PRODUCERS OR DEALERS, SORTING AND GRADING, PACKING AND TRANSPORTING TO THE WHARF. REGARDING LATEX CREPE, SCRAP CREPE AND SOLE CREPE, THESE ARE BOUGHT BY THE PRIVATE TRADE AT AUCTIONS CONDUCTED BI-WEEKLY AND AFTER GRADING, PRESSING AND PACKING, ARE EXPORTED TO ALL PARTS OF THE WORLD. THE BLOCKED RUBBER WHICH IS PRESENTLY PRODUCED BY THE STATE SECTOR, IS EXPORTED BY THE PUBLIC SECTOR.

2. GOVERNMENT CONTROL. THERE ARE TWO GOVERNMENT DEPARTMENTS WHICH EXERCISE CONTROL OVER THE RUBBER INDUSTRY, VIZ (A) RUBBER CONTROL AND (B) COMMODITY PURCHASE. RE (A) ABOVE, IT

FUNCTIONS PRIMARILY IN THE RUBBER REPLANTING SUBSIDY SCHEME. THE TARGET FOR REPLANTING WAS SET AT ABOUT 15,000 ACRES PER YEAR, BUT HAS FALLEN FAR SHORT. THIS DEPARMTNE IS RESPONSIBLE FOR THE OPERATION OF THIS SCHEME INCLUDING DISBURSEMENT OF SUBSIDIES. REGARDING (B) ABOVE, IT NOT ONLY OPERATES THE RUBBER SIDE OF THE PRC-SRI LANKA RUBBER/RICE PACT, BUT ALSO EXERCISES CONTROL OVER PRICES OF CREPE AS WELL. WHILE THE 1976 PACT PROVIDED FOR 67,000 TONS OF SHEET RUBBER TO BE SHIPPED TO PRC, THE 1977 PACT PROVIDED FOR ABOUT 49,200 TONS ONLY PLUS A FURTHER 13,000 TONS FOR ADDITIONAL RICE SUPPLIED EARLIER. THE SMALLER QUANTITY OF RUBBER TO BE EXPORTED IS DUE TO THE HIGH WORLD MARKET PRICE OF RUBBER AND THE REDUCED WORLD MARKET PRICE OF RICE IMPORTS.

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TO SECSTATE WASHDC 7329

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3. PRICING, CONTRACTS, COMMODITY EXCHANGE, CREDIT. PRICE AT WHICH SHEET RUBBER IS SOLD IS BASED ON THE AVERAGE SINGAPORE PRICE. CCP PAYS THE MEMBERS OF CEYLON RUBBER SHIPPERS' ASSOCIATION (CRSA) WHO HANDLE THE RUBBER ON HIS BEHALF UNDER THE SRI LANKA-PRC PACT, BESIDES HANDLING CHARGES, A PRICE PREVAILING ON THE DATE OF SALE TO HIM BASED ON THE PRICE FOR EACH GRADE PREVALENT IN SINGAPORE. SIMILARLY, CCP PAYS PRODUCERS WHO DELIVER RUBBER THROUGH HIS DEPOTS THE SAME PRICE AFTER ADJUSTING FOR TRANSPORT CHARGES FROM DEPOT TO COLOMBO. AS FAR AS CCP'S PAYMENTS TO PRODUCERS ARE CONCERNED, PAYMENT IS MADE WITHIN ONE WEEK OF DELIVERY TO DEPOTS. MEMBERS OF CRSA WHO HANDLE HIS RUBBER ARE NORMALLY PAID WITHIN A WEEK OF SHIPMENT. IN THE LATTER'S CASE, HOWEVER, THEY WILL HAVE TO MAKE PAYMENT TO THE PRODUCER OR DEALER IMMEDIATELY DELIVERY IS EFFECTED. USUALLY, A TIME LAG OF ONE AND ONE HALF TO TWO MONTHS

EXIST BETWEEN PAYMENTS MADE BY THEM TO PRODUCERS/DEALERS AND RECEIPT OF MONIES FROM CCP. WITH RESPECT TO CREPE, SCRAP CREPE AND SOLE CREPE WHICH ARE MAINLY HANDLED BY THE PRIVATE SECTOR, PRICE RECEIVED BY PRODUCER IS DETERMINED BY THE PRICES AT WHICH SUCH RUBBER IS SOLD AT THE COLOMBO AUCTIONS CONDUCTED BY THE CEYLON CHAMBER OF COMMERCE TWICE A WEEK. EVEN DIRECT DELIVERIES OF RUBBER OUTSIDE AUCTIONS ARE PRICED ON THE BASIS OF AUCTION PRICES. IT MIGHT BE RELEVANT MENTIONING THAT SRI LIMITED OFFICIAL USE

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LANKA'S EXPORTS OF RUBBER AMOUNT TO APPROXIMATELY 5 PERCENT OF WORLD'S NR EXPORTS AND, THEREFORE, PRICES ARE DETERMINED BY THE FORCES OF WORLD SUPPLY AND DEMAND. PURCHASING AND SELLING RUBBER USUALLY FOR PERIODS OF SIX MONTHS FORWARD THROUGH BROKERS IS PERMISSIBLE. HOWEVER, PARTICULARS OF SUCH PURCHASES HAVE TO BE REPORTED TO THE CEYLON CHAMBER OF COMMERCE THE FOLLOWING DAY. REGARDING SALES OF RUBBER FOR EXPORT FORWARD, USUAL PERIOD IS FOR SIX MONTHS ONLY (REPORTEDLY, IN OTHER RUBBER PRODUCING COUNTRIES THIS IS NOT SO) IN VIEW OF THE FACT THAT THE SRI LANKA CUSTOMS ACT DOES NOT PERMIT REGISTRATION FOR EXPORT DUTY PURPOSES BEYOND THAT PERIOD. SHIPPERS TOO DO NOT WISH TO TAKE THE RISK ON UPWARD REVISION OF EXPORT DUTY OVER THAT PREVAILING AT THE TIME OF THEIR CONTRACTS OF SALE. REGARDING EXPORT PRICES, THERE IS A FLOOR PRICE SCHEME OPERATED BY CCP WHO DETERMINES WHETHER A SALE SHOULD BE ALLOWED BASED ON THE PRICE PREVAILING ON THAT DATE. THERE IS NO ORGANIZATION IN SRI LANKA FOR COMMODITY EXCHANGES SUCH AS IN MALAYSIA OR LONDON. PRICE FACTORS ARE DETERMINED ON THE BASIS OF AUCTIONS AS STATED EARLIER AND ALL CONTRACTS HAVE TO CONFORM TO THE RULES OF THE CEYLON CHAMBER OF COMMERCE. THE SMALLHOLDER, AS MENTIONED EARLIER, OBTAINS IMMEDIATE PAYMENT ON DELIVERY EITHER FROM CCP IF THE RUBBER IS DELIVERED TO ANY OF HIS DEPOTS OR FROM A DEALER IN HIS DISTRICT IF HE CHOOSES TO SELL TO A DEALER. THE SHIPPER, ON THE OTHER HAND, AS STATED PREVIOUSLY, HAS TO SUFFER A TIME LAG OF ABOUT ONE AND ONE HALF TO TWO MONTHS BEFORE HE RECEIVES PAYMENT FROM CCP IF THE RUBBER WAS SHIPPED ON CCP'S BEHALF. AS REGARDS CREDIT FOR OTHER TYPES OF RUBBER, THIS THE INDIVIDUAL SHIPPER WOULD HAVE TO ORGANIZE IN MOST CASES WITH HIS BANKERS. SPECIFICALLY, IN HEAVY CROPPING MONTHS OR DUE TO DELAY OF VESSELS, PRIVATE SHIPPERS HAVE SERIOUS CREDIT PROBLEMS AND ARE TOTALLY DEPENDENT ON THEIR BANKERS FOR SUCH FACILITIES. OCCASIONALLY, GSL, WHEN AWARE OF SUCH DIFFICULTIES, REQUESTS THE CENTRAL BANK OF CEYLON TO ARRANGE FOR THE COMMERCIAL BANKERS TO INCREASE THE FACILITIES BY A REFINANCING ARRANGEMENT WITH THE CENTRAL BANK ITSELF.

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4. DEVELOPMENT. ACCESS OF RS. 4.35 PER 100 KGS IS LEVIED FOR THE FOLLOWING PURPOSES:

(A) RS. 1.65 PER 100 KGS FOR MEDICAL AID

(B) .50 CENTS PER 100 KGS FOR THE RUBBER CONTROL DEPT.

AND

(C) RS. 2.20 PER 100 KGS FOR RUBBER RESEARCH

RUBBER RESEARCH IS PRIMARILY DONE THROUGH THE RUBBER RESEARCH INSTITUTE AT AGALAWATTE. TO HELP SMALLHOLDERS, THERE IS ALSO A BRANCH AT RATMALANA. DESPITE ITS LIMITED RESOURCES, IT HAS BEEN IN THE FOREFRONT IN HELPING NR PRODUCERS TO OBTAIN INCREASED YIELDS BY THE SUPPLY OF HIGH YIELDING CLONES. THE RUBBER CONTROL DEPARTMENT, BESIDES ITS RUBBER REPLANTING SUBSIDY SCHEME, HAS ANOTHER SCHEME TITLED RUBBER FACTORY DEVELOPMENT SUBSIDY SCHEME, WHEREBY ONE-THIRD THE COST OF APPROVED ITEMS OF MACHINERY, APPLIANCES AND EQUIPMENT INSTALLED IN RUBBER FACTORIES PRODUCING OTHER TYPES OF RUBBER IS GIVEN AS AN OUTRIGHT GRANT. IT ALSO HAS A CROP DIVERSIFICATION SCHEME (SIMILAR TO THAT OPERATED BY THE TEA COMMISSIONER) AND HAS RECENTLY INAUGURATED A LOAN SCHEME FOR PLANTING OF NEW LANDS IN RUBBER WITH HIGH YIELDING CLONES. UNDER THIS SCHEME, A LOAN OF RS. 1,800 PER ACRE IS GIVEN AND IT IS ENVISAGED THAT ABOUT 1,000 ACRES WOULD BE PLANTED IN 1977. A TARGET OF 25,000 ACRES HAS BEEN SET. THE DEPARTMENT ALSO MAINTAINS A NURSERY COVERING AN EXTENT OF 125 ACRES, REPORTEDLY THE LARGEST IN THE WORLD. ALTHOUGH A REPLANTING CESS OF RS. 18.00 PER 100 KGS IS LEVIED AND USED FOR SUBSIDISING REPLANTING, DUE TO VARIOUS FACTORS THERE HAS BEEN A LARGE SHORTFALL IN ITS PROGRESS. IN ADDITION TO ALL THE CESSSES MENTIONED ABOVE, THERE IS ALSO AN EXPORT DUTY LEVIED ON A SLIDING SCALE BASED ON LONDON PRICES.

5. PRICE STABILIZATION AND RUBBER STOCK AGREEMENTS. INDONESIA, MALAYSIA, SINGAPORE, THAILAND AND SRI LANKA, CALLING THEMSELVES THE ASSOCIATION OF NR PRODUCING COUNTRIES (ANRPC), WERE THE SIGNATORIES TO A PRICE STABILIZATION AND BUFFER STOCK AGREEMENT IN 1976. THE MAIN FEATURES WERE (A) A BUFFER

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STOCK OF 100,000 TONS TO BE SET UP (B) AN INTERNATIONAL NATURAL RUBBER COUNCIL (INRC) TO BE SET UP TO MANAGE AND MONITOR THE BUFFER STOCK (C) 70 PERCENT OF BUFFER STOCK TO BE CENTRALLY MANAGED BY INRC AND 30 PERCENT TO THE NATIONALLY MANAGED, (D) THERE WOULD BE NO BUFFER STOCK OPERATIONS WITHIN THE PRICE STABILIZATION BAND OF MALAYSIAN \$1.45 TO 1.65. IF PRICE FALLS BETWEEN MALAYSIAN \$1.20 TO \$1.44, INRC TO PURCHASE RUBBER IN THE MARKET. IF PRICE RISES BETWEEN MALAYSIAN \$1.66 TO \$1.80, INRC COULD SELL RUBBER TO THE MARKET. MALAYSIAN \$1.20 WAS CALCULATED TO BE THE APPROXIMATE COST OF PRODUCTION AND

\$1.80 THE PRICE AT WHICH NR WAS THOUGHT TO BECOME UNCOMPETITIVE
(E) COUPLED WITH THE BUFFER STOCK OPERATION WOULD BE A SUPPLY
RATIONALIZATION SCHEME INVOLVING EXPORT QUOTAS. THERE WERE
OBSERVERS FROM BRAZIL, BURMA, NIGERIA AND THE SOCIAL REPUBLIC
OF VIETNAM AT THE ABOVE ANRPC MEETING.
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